TD/B/42/(2)/7
TD/B/WG.9/3

UNITED NATIONS CONFERENCE ON TRADE AND DEVELOPMENT

Report of the Ad Hoc Working Group to Explore the Issue of Structural Adjustment for the Transition to Disarmament

convened at the Palais des Nations, Geneva,
from 27 November to 1 December 1995

UNITED NATIONS

Distr.
GENERAL

TD/B/42(2)/7
TD/B/WG.9/3
13 December 1995

Original: ENGLISH

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GE.95-54100 (E)

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INTRODUCTION

1. The Ad Hoc Working Group to Explore the Issue of Structural Adjustment for the Transition to Disarmament met at the Palais des Nations, Geneva, from 27 November to 1 December 1995. In the course of its session, it held 4 formal plenary meetings and 5 informal meetings.

Introductory statements

2. The **Chairman** said that the mandate given to UNCTAD at Cartagena indicated that all countries should consider transferring resources from military to civilian use. The Working Group's mandate referred to three important aspects of the issue: decreases in military spending would lead to a reduction in fiscal and external imbalances and increased availability of development finance; developing countries were urged to reduce military expenditure to the extent that it was excessive and taking into account the specific and individual situation of the countries concerned; and conversion of military technologies to civilian uses should allow adjustment of production structures to new development patterns, trade, technology and resource flows.

3. The Group must seek to add substance to these questions and to maintain a balance among them. UNCTAD could not make judgements on the level of military expenditures that was considered to be excessive or on what military facilities should be converted. These issues were political in nature, and UNCTAD must rather explore the developmental aspect of the issue and the best economic way to convert military-based resources for development.

4. It should be noted that structural changes emanating from the transition to disarmament were not restricted to a particular part of the world; they were taking place in developing countries all over the world, including countries which were emerging from war and must reintegrate the army into society. Such reconstruction efforts would entail the use of resources made available to developing countries as a result of the fact that they might no longer need a high level of military spending due to the change in their security situation or government. Developing countries might also receive the military facilities which had been used by foreign Powers, in which case they would need technical assistance in converting them for civilian uses. All such efforts required support from the international community, including financial support.

5. The **Deputy to the Secretary-General of UNCTAD** said that the Ad Hoc Working Group, the first ever convened by UNCTAD to address the issue in question, had been established as a result of the mandate given to it in the Cartagena Commitment to explore the implications for world economic growth and development of structural adjustment for the transition to disarmament and the economic aspects of conversion of military capacities to civilian uses, without reference to judgements about appropriate levels of military expenditure.

6. In order to focus on a manageable number of issues for a single one-week session, the UNCTAD secretariat had had to be selective in the issues investigated in its report. The report thus did not present all issues

comprehensively, but rather examined questions within UNCTAD's mandate which were both mutually enriching with other ongoing UNCTAD activities and of interest to a large number of countries in the various regions.

7. The report had drawn on studies originating both outside and within the United Nations system, and it considered in particular issues related to the conversion of manpower and military bases, technological and scientific questions, the role of privatization, and effects on commodity markets and trade. It was important to note that, while the challenge of conversion took significantly different forms in developing, developed and transition economies, in all cases costs were likely to be incurred prior to the reaping of benefits, while costs and benefits might accrue to different parts of society. In developing countries, the transition often resulted from the ending of armed conflict, and adjustment involved the reconstruction of a war-torn society. Tackling such issues would be of immediate relevance to the current world situation.

8. The **Director-General of the United Nations Office at Geneva and Secretary-General of the Conference on Disarmament** said that the subject before the Ad Hoc Working Group was of tremendous importance, and perhaps one of the key issues in the field of arms regulation and disarmament. The United Nations had recognized that the end of tension and competition between the United States and the Soviet Union had provided three unique opportunities in the field of disarmament: a chance to integrate disarmament issues into the broader structure of the international agenda for peace and security; a chance to globalize the process of disarmament by facilitating regional, subregional, bilateral and unilateral measures; and a chance to revitalize the process.

9. Three realities were of great importance today: the nuclear arms race was no longer a threat to human existence; parties to the Non-Proliferation Treaty (NPT) had extended it indefinitely; and multilateralism prevailed in the field of disarmament, with the notable recent support from the United States, France, the Russian Federation and the United Kingdom for a complete ban on testing of nuclear weapons in 1996. Nevertheless, several new challenges had emerged, including control of stocks of enriched uranium and plutonium and sophisticated weapons technology and the emergence of intra-State tensions after the end of the cold war. A more pragmatic approach to disarmament was needed, including arms regulation, as opposed to general and complete disarmament. Confidence- and security-building measures were important components of arms limitation and included, for example, reciprocal early exchange of information relating to routine military manoeuvres or testing of equipment.

10. With respect to weapons of mass destruction, greater efforts must be made to counter the proliferation of chemical and biological weapons and the means to deliver them, and to build upon the NPT. Regarding conventional weapons, the spread of light infantry and small arms (particularly land-mines) had continued to undermine the international community's efforts to promote peace and stability. The activities of private arms dealers were practically free of international legal norms and might belie the reported trend toward lower world arms sales. A comprehensive approach to the question of conventional

weapons was necessary. Regional and other non-global agreements to regulate conventional weapons, or to create additional nuclear-weapon-free zones or demilitarized zones, should be encouraged.

11. Despite the end of the cold war, accelerating disarmament and conversion had not been easy and had led to complicated social and economic problems, as costs were often borne before any benefits became apparent, difficulties arose in converting defence companies, and unemployment often rose. Thus, the major issue in this connection was to make the conversion process less painful both for the industries concerned and for people and the State. Perhaps the most complicated set of problems facing the international community in this field concerned the rehabilitation and rebuilding of war-torn societies.

Chapter I

STRUCTURAL ADJUSTMENT FOR THE TRANSITION TO DISARMAMENT AND THE IMPLICATIONS FOR WORLD ECONOMIC GROWTH AND DEVELOPMENT

(Agenda item 3)

12. For its consideration of this item, the Standing Committee had before it the following documentation:

"Structural adjustment for the transition to disarmament: report by the UNCTAD secretariat" (TD/B/WG.9/2).

13. The representative of **Chile** said that the end of the cold war had created conditions conducive to peace and security, and there was a need in all countries to increase the volume of resources allocated to social and economic development. Despite a number of United Nations meetings between 1990 and 1992 on the subject of military conversion, there had been no follow-up, no institutional framework had been established, and there had been no recommendation for additional resources or for any guidelines on how to complete work on the subject. Although the Trade and Development Board, in its decision 420 (XLI), had implicitly conveyed its intention of closing the Ad Hoc Working Group, and that might not be in accord with members' intentions as expressed in Cartagena, that decision only concerned the means towards the end. The Group's primary mission was to provide the Board with recommendations in fulfilment of the mandate given at Cartagena.

14. With respect to the specific experience of Chile, the Armed Forces had been very actively involved in environmental issues - the Army in various areas of environmental protection, including in particular afforestation, forest conservation, and reduction and disposal of toxic waste; the Navy in various areas related to the conservation of the marine environment; and the Air Force in meteorology and space-related activities. Such contributions by the military to civilian activities had been made not under a programme of conversion but rather as a diversion of manpower to civilian use. The armed services in many countries could provide considerable support for the environment and technological progress, incorporating a broader sense of national security than in standard military doctrine.

15. The representative of the **Russian Federation** said that the subject to be discussed by the Ad Hoc Working Group was of great importance. Structural adjustment, as outlined in the secretariat paper, was one of the preconditions for improving international cooperation, and in view of its importance, it should be incorporated into UNCTAD's work and combined with other issues currently investigated by UNCTAD such as technology and trade. UNCTAD should concentrate on the impact of structural adjustment on competitiveness in world trade, technology transfer, release of manpower and other resources for national production, attractiveness for foreign investors and impact on external resource flows, and the role of the State in conversion projects. It was critical that the Group's work should result in practical recommendations.

16. On the whole, his delegation approved the secretariat's report, which covered the main issues. There were, however, a number of questions which required greater attention: the role of the State and macroeconomic policies; effects of conversion on capital markets and interest rate movements; effects on enterprises; the specific lessons which may be drawn from the experience of Germany in its eastern regions; and the practical possibilities for UNCTAD, which might include, for example, the holding of expert seminars. These issues could be considered areas for future work by the secretariat.

17. Structural adjustment encompassed several elements which should be stressed: the exchange of national experiences; the trade policy implications of conversion, including the issues of non-tariff barriers and anti-dumping actions, particularly with regard to uranium, aluminum and other strategic goods; prospects for strategic commodities; and limitations on the transfer of technology which would help with conversion and adjustment. Furthermore, the problem of economic recovery in the wake of military conflict affected a number of countries throughout the world, and international cooperation in that respect would be crucial for the consolidation of peace.

18. In all these areas UNCTAD should help by studying the issues, although it would not necessarily be the centre of work in this area, nor should such work take priority over other areas of activity. The Working Group should seek to reach mutually acceptable decisions within the context of consensual preparations for UNCTAD IX.

19. The representative of **Japan** said that one of the lessons that could be learnt from his country's national experience was the importance of allocating resources, as far as possible, to productive purposes. As indicated in the Cartagena Commitment, it was in the interests of developing countries to reduce military expenditure and redirect resources towards development. Moreover, many developing countries were facing such threats as poverty, environmental degradation, population explosion and epidemic disease which, in some cases, posed a more serious threat to national security than military concerns. The redirection of resources from military to civilian use could be painful, but would produce savings in the end. This issue had relevance for developing countries in three circumstances: when reconstruction started after internal or external conflict; when control over bases formerly used by foreign troops reverted to local control; and when there was an internal decision to reduce military capacity.

20. The most important goal was development, and in its allocation of resources for economic cooperation, Japan took account of the trends in the military expenditure of recipient countries. Japan had been able to consistently increase its annual development assistance as a result of its policy of restraining its defence budget, and it had strongly supported those developing countries which were attempting to recover from internal or external conflicts.

21. UNCTAD was not an appropriate forum for discussion or political decisions on cuts in military expenditure or diversion of resources into development activities in sovereign countries, and the Ad Hoc Working Group should focus on ways in which such reductions could release resources and on how such

resources could be used to spur development once a decision had been made to decrease military expenditure. UNCTAD could act as a forum for debate based upon national experiences in order to identify common features, draw lessons and clarify the potential role of international support, particularly with regard to the experience of war-torn countries which were making enormous efforts to adjust. Japan also supported the Secretary-General's call for a world hearing on the relationship between disarmament and development.

22. The spokesman for the **African Group** (Egypt) said that the issue before the Ad Hoc Working Group had been dealt with in other organs of the United Nations system, namely the General Assembly, UNIDIR and UNDC. Egypt had participated in drafting the paragraphs of the Cartagena Commitment concerning the issue of structural adjustment and disarmament, and it had been agreed that UNCTAD should not deal with aspects of the subject that lay outside its mandate, such as national security and the retraining of labour released from the military sector; rather, UNCTAD should focus on the trade and development aspects of the subject and on the related aspects of finance, investment and technology transfer, as well as the relationship between those topics and developing countries' requirements for development.

23. The economic aspects of adjustment and conversion had been dealt with in the General Assembly in the 1960s, and at that time the Soviet Union had made a proposal to decrease the military budgets of developed countries by 10 per cent and transfer the savings to developing countries. The subject was multifaceted, and it had not therefore, been possible to discuss it except in plenary; it had never been referred to any subsidiary body. UNCTAD should concentrate on the financial aspects of adjustment and in particular the decline in official development assistance and the fact that developed countries had not adhered to the target of 0.7 per cent of GNP as ODA to developing countries. Lower military expenditure in countries with large military establishments should allow an increase in such assistance. In that connection, however, the major industrial countries had trimmed their military budgets, and this would help to decrease budget deficits and thereby lower inflation and real international interest rates, which would in turn moderate negative economic shocks in developing countries.

24. Only after Cartagena had there been discussion of the need for a mechanism to investigate the issue before the Group. A number of questions referred to in the secretariat's report, such as conversion of military industries and bases into civilian use, could not be tackled without the participation of military experts. One issue in particular, the destruction of chemical weapons, would entail significant costs if it was taken up. Several issues should properly be taken up by bodies outside UNCTAD, specifically the World Bank, the International Labour Organization, and possibly the United Nations Industrial Development Organization.

25. The representative of the **Philippines** said that the subject of the Ad Hoc Working Group was most relevant for developing countries in terms of the peace dividend or the conversion of military expenditure into development assistance or investment in developing countries, because the latters' own military expenditure and production was generally relatively small. Expectations in this respect had, however, been only partially realized, with a decline in

military expenditure of $207.4 billion but an increase in official development finance of only $31.2 billion between 1987 and 1993, with the result that ODA had been falling steadily as a percentage of GNP, dropping from 0.34 per cent in 1988 to 0.29 per cent in 1994. Experience showed that falling military expenditure did not automatically translate into higher ODA.

26. His country's national experience might hold lessons for other developing countries in similar situations. The Subic Bay naval base case was in fact not an example of structural adjustment for disarmament, since the base had been returned to the Philippines after a decision not to renew the lease on them. However, the economic consequences were very significant, as the bases were the second largest employer after the Government, the country had been receiving $180 million a year in base-related economic aid, and the United States' security umbrella had allowed a relatively small national defence budget.

27. The biggest and most pressing problem was the reabsorption of the displaced labour into the general labour force. There had been some success in attracting investment into the area because of the geographical advantage of being located in a fast-growing region and the quality of the harbour at Subic. Conversions elsewhere without the benefit of such advantages might not, however, be successful in replicating this experience.

28. The representative of the **United Nations Research Institute for Social Development** (UNRISD) said that populations in war-torn countries welcomed peace with understandable hopes for a better life, but the challenges following cease-fires were more complex than during war. The international community could contribute positively to meeting these challenges, which included reintegrating uprooted people, moving from military dominance to effective civilian government, and creating political and civilian institutions.

29. The recent major conflicts outside Europe had been fought in the poorest countries. Here, the major task was demilitarization, but the international community had failed to ensure adequate reintegration of former combatants, thus creating a risk of renewed outbreaks of war. The relevance of the Working Group to ongoing work on war-torn societies was based on the premise that reintegration and rehabilitation strategies were the building blocks of development.

30. The representative of the **Friends World Committee for Consultation** (FWCC) said that, without disarmament, the mere ending of violent conflicts offered no assurance of a return of economic security and social stability for several reasons. Military personnel no longer serving security functions might develop disruptive activities within the civilian economy, while the demobilization of untrained ex-combatants exacerbated unemployment and could result in armed banditry or other criminal activity.

31. In some instances, post-war economic development efforts which incorporated the global trends of globalization and liberalization had frustrated efforts to rebuild the civilian economy because of the sudden imposition of deregulated markets on traditional economies, leading to

opportunistic investment and new concentrations of wealth. Traditional economic rights and opportunities were thus eroded and new conflicts and insecurities emerged. Countries with economies in transition pursuing conversion and demobilization in the post-cold war world were also constrained by limited markets, investment and economic knowledge.

32. UNCTAD should play a role in the area under discussion in three ways: by analysing economic aspects of arms conversion and demobilization of soldiers, including the reallocation of financial and other resources, reorientation of research and application of technology, restructuring of industry, alternative civilian opportunities for military bases, and issues related to economic planning and growth, market access and investment capital flows; by facilitating the exchange of experience among its member States; and by contributing to multilateral, bilateral and NGO efforts to provide technical assistance connected with the economic and social aspects of disarmament at the national and local levels.

33. The representative of the **Netherlands** said that, with regard to disarmament and demobilization, economic policies could not be implemented efficiently without political initiatives to improve the political context in the world. Legitimate security interests still needed to be protected. The Ad Hoc Working Group should focus on the economic aspects of disarmament, which fell within the mandate of UNCTAD, leaving security issues to be explored elsewhere.

34. From the point of view of an optimal use of resources for development, the issue of military expenditure formed an integral part of the policy dialogue between the Netherlands and recipients of its development aid. In light of the difficulty in defining a clear-cut criterion for what constituted an appropriate level of military spending, it was best to look at trends in military spending. Given the lack of a transparent, internationally coordinated system for the registration of information on military expenditure, the Netherlands encouraged the developing countries to practice greater openness about their military expenditure and to improve the quality of this information. An industrialized country's commitment to development cooperation required a coherent arms export policy. The seriousness of the policy dialogue to encourage reduced military spending in a given developing country would be jeopardized when industrialized countries' companies or Governments were seeking at the same time to promote the sale of military goods to that same country. For industrialized countries, there was a need for better coordination between the various relevant government bodies to strengthen policy coherence.

35. With respect to demobilization and reintegration programmes, the Dutch Government was assisting a number of African countries through different United Nations agencies, such as UNDP, ILO and the World Bank. There was a need for an adequate international coordination structure to provide a forum for discussion of demobilization and reintegration issues. Perhaps a United Nations organization with a General Assembly set-up, such as UNCTAD, in cooperation with regional organizations (e.g. OAU, OAS) and NGOs, could provide such a forum. One of the biggest obstacles for implementing demobilization and reintegration programmes was the flow of light weapons.

Transparency on disarmament issues, such as the number of armed people and the stocks and flows of weapons during and after demobilization, was a condition for successful demobilization programmes. With reference to the production and export of arms, a number of developing countries were now competing with traditional industrial country suppliers, although the latter remained the dominant players. The multiplicity of sources of supply had produced a buyers' market in which light conventional arms were generally available to anyone, both States and sub-State groups. Conversion was difficult and expensive for all countries, and UNCTAD could provide a forum for discussion of relevant issues. The Netherlands was not involved in conversion projects in developing countries. It did provide assistance in Russia, but this was not financed under the budget for development aid.

36. Promoting greater openness and transparency with regard to military expenditure and arms trade, in particular of light weapons, constituted an important issue. According to various sources, exports and transfers of surplus weapons had increased significantly since the end of the cold war. Perhaps UNCTAD could play a role by helping developing countries to implement proper accounting and budgeting systems for military expenditure. The United Nations Register on Conventional Arms Transfers did not handle light weapons. Other possibilities to improve transparency included the creation of regional arms registers.

37. The representative of **China** said that the secretariat's report provided a useful introduction to the subject, but his country could not agree to its classification in that report as an industrial country, when it was actually a low-income developing country. He recalled that, at the informal consultations held by the President of the Trade and Development Board in preparation for the eighteenth special session of the Board, many delegations had considered, when the issue of the Ad Hoc Working Group had been discussed, that it went beyond UNCTAD's mandate and duplicated the work of other United Nations organizations. That was also the understanding of his delegation. This was of special concern in light of the resource constraints which the organization currently faced. In China, full implementation of the conversion of the defence industry to civilian production had begun in the late 1970s as part of its overall strategy for national development. To date, the conversion programme had proceeded quickly, and two thirds of military production had been converted. The management system of the defence industry, as well as the structure of the industry, had been greatly adjusted. His delegation would be interested in hearing about different national experiences in the area under discussion.

38. The representative of **Germany** said that the issue before the Working Group was particularly relevant for his country because of the challenges posed by German reunification. Those challenges involved the same issues as those emphasized in the secretariat's report, namely production of goods and services, military bases and installations, and manpower demobilization. Despite the special circumstances of German unification, his country had assisted countries in transition in the field of conversion. Such assistance had led, inter alia, to the establishment of the Bonn International Centre for Conversion (BICC), whose tasks included collecting information, training, organizing seminars and extending concrete technical assistance on conversion.

He thanked the Quaker United Nations Office in Geneva for organizing informal exchanges between delegates in Geneva and the head of BICC research branch.

39. With regard to the secretariat's report, the approach adopted regarding the peace dividend, namely that savings resulting from declines in military expenditures should be devoted wholly to ODA, was simplistic and misleading. However, he welcomed the fact that the rest of the secretariat paper adopted the UNIDIR approach, whereby conversion was regarded as an investment process, implying short-term costs and possible future benefits.

40. The representative of **Ethiopia** said that the peace dividend was not evenly shared globally, and the decline in military expenditures was not fully reflected in increases in ODA. Efforts had been made in his country to reduce military expenditures, and a commission had been established with the aim of reintegrating former army personnel into the civilian sector. The commission was financed both domestically and externally, but problems remained in the sense that finance was still lacking. Domestic efforts must therefore be complemented by international efforts, and ODA should be increased.

41. The representative of **Morocco** said that the report of the secretariat was useful for member States engaged in structural adjustment for the transition to disarmament. In some parts, however, it was rather technical, which meant that there was a need for military and disarmament experts to give their opinion on conversion of military industries to civilian uses. The subject should therefore be dealt with in the appropriate international forums. UNCTAD, however, could focus on the economic aspects of the subject, such as development implications. The Cartagena Commitment had recommended that the world growth and development aspect be tackled, which meant that the economic aspects of conversion and reductions of military expenditures lay within the purview of UNCTAD. However, such matters ought to have been discussed in the Trade and Development Board, without any need for a subsidiary body. Studies could be undertaken, and seminars could be held with the active participation of military experts. The role of UNCTAD should be concerned with the post-disarmament period, analysing the impact of political decisions on development. It should not be to tell developing countries how much they should reduce their military spending.

42. The Moroccan army participated in development through activities in such fields as relief from natural disasters and the construction of infrastructure. It also participated, with assistance from some international institutions, in the campaign against locusts.

43. The representative of the **United Kingdom** thanked the secretariat for a good report but expressed some concern with respect to the section on the peace dividend. Specifically, the attempt to draw a correlation between lower military expenditure (which was taken as an empirical measure of the peace dividend) and the level of official development assistance from members of the Development Assistance Committee was rather simplistic and misleading, in that there was not necessarily a direct link. The United Kingdom was committed to cutting defence expenditure, but already spent large sums on development assistance, and it was not possible to link lower military spending directly with release of resources for social and economic purposes.

44. UNCTAD did not have a large role to play in the area under discussion because most elements were appropriately handled elsewhere. The Security Council, the Conference on Disarmament, the Disarmament Commission and a number of arms control agreements and practices dealt with most aspects of the subject, and the Ad Hoc Working Group's work was likely to cut across the mandate of one or more already existing multilateral bodies. Regarding transparency, the United Kingdom submitted regular, full and accurate returns to the United Nations on military expenditure, and it was strongly opposed to UNCTAD duplicating any type of work in this area. UNCTAD should not play any role in this area in future, and in particular after UNCTAD IX.

45. The representative of the **United Nations Institute for Disarmament Research** (UNIDIR) said that his organization had prepared a report on the economic issues of disarmament for the General Assembly. One of the 12 main conclusions of the study was that distinctions must be made between different categories of countries and economic systems, particularly with respect to countries which were capable of producing weapons and those which were not. For the former, conversion would mean destruction of a portion of national productive capacity, raising unemployment in the short term. For the latter, it would be less a conversion than a reallocation of the components of the government budget, and military spending could be redirected. While all countries undertaking conversion bore the transaction costs of moving from a war economy to a civilian economy, countries with economies in transition faced the additional transaction costs associated with the move from a socialist to a market economy.

46. With regard to conversion, perhaps the process could usefully be viewed as an investment, with initial costs and later benefits. Also, it might be noted that there existed an important precedent for the process of conversion; after the Second World War, countries which had had a total war economy had been successful in adjusting, partly due to the Marshal Plan.

47. The representative of the **Women's International League for Peace and Freedom** (WILPF) expressed her support for UNCTAD examining the question of structural adjustment and disarmament. WILPF had worked for disarmament and conversion for 80 years, and it had explored the relationship between disarmament and development. While conversion required investment, such investment was essential for the release of resources in the long term for women's programmes and for the effective attainment of equality, development and peace. Retraining of soldiers and creation of jobs were essential in rebuilding war-torn societies.

48. WILPF continued to work towards general and complete disarmament and for a Comprehensive Test Ban Treaty. It was calling for the monitoring of the long-term effects of nuclear testing by an independent international body, and for compensation and development assistance for French Polynesia, where testing was taking place.

49. The structural adjustment programmes imposed by the International Monetary Fund and the World Bank had increased poverty and unemployment and caused large-scale environmental devastation. In the resulting situation of social breakdown, it became very easy to manipulate ethnic, religious or

tribal tensions, which could lead to armed conflict. Least developed countries had been especially affected, and WILPF urged UNCTAD's programme on LDCs to explore the relationship between armed conflict and the impact on these countries of an unjust international economic order.

50. The representative of **Ukraine** said that the importance of conversion to his country, which had inherited one third of the Soviet Union's military capacity, was obvious, and his country had thus supported efforts to implement the Cartagena Commitment as it related to structural adjustment and disarmament. The conversion problem had transcended national boundaries to become a crucial factor in world economic development, and the cost of conversion was much greater than expected. Disarmament and conversion required macroeconomic adjustment in all countries, whether developed or developing, with the countries in transition being particularly affected.

51. UNCTAD had an important contribution to make to the trade and development aspects of conversion and in particular to the questions of competitiveness and access to markets. For countries in transition in particular, it was also important to study capital flows and foreign investment. UNCTAD must therefore strengthen its future activities in the field of disarmament and conversion, in coordination with other international organizations. Specific areas of future work could include the absorption of military manpower released in the disarmament process into the civilian sector.

52. The representative of the **Russian Federation** said that one of the most important conditions for ensuring successful adjustment and conversion on a large scale was broad-based multilateral cooperation. In the economic field, the conversion of Russia's defence industry could contribute to large-scale international projects. Areas of interest would include the production of consumer goods with the help of foreign credits and technology, research and joint production in such fields as aviation, nuclear energy and outer space, and the development of ecologically clean methods of disposing of chemical and nuclear stocks. Socially, one of the main problems was unemployment, and both basic and applied research was required in that respect. Areas of interest in that connection would include the question of unemployment resulting from conversion in countries that were major weapons producers, retraining of former defence industry personnel, the effects of conversion on the world labour market, and the question of compensatory measures.

53. Despite the differences in countries' situations, there was considerable scope for bilateral and multilateral international cooperation with a view to enhancing competitivity, improving living standards and contributing to environmental protection. For its part, the Russian Federation was doing everything to improve the economic and legal framework for foreign investors, particularly in the context of privatization of converted defence industries. International cooperation should be directed primarily at large-scale projects in such fields as energy, medicine and the environment and at social problems such as unemployment. Other areas of cooperation could include infrastructure, nuclear energy, food supplies, housing, and the environment.

54. Efforts to convert the defence industry to civilian production led to complex social and economic problems which Governments were not always

prepared to resolve by themselves, i.e. without the help of the international community. Initially, conversion and disarmament generally entailed considerable costs and required additional investment, and only subsequently did they become profitable and produce economically tangible dividends.

55. While UNCTAD should not become involved in the political or military aspects of disarmament and conversion, it had a definite role to play in the economic and trade aspects. These aspects fell within the mandate of UNCTAD, and they should therefore remain on the UNCTAD agenda.

Action by the Ad Hoc Working Group

56. At its 4th (closing) plenary meeting, on 1 December 1995, the **Ad Hoc Working Group** adopted its draft agreed conclusions. (For the text of the agreed conclusions, see annex I.)

57. At the same meeting, the **Ad Hoc Working Group** took note of the summary of the Chairman. (For the text of the summary, see annex II.)

Closing statements

58. The representative of the **Russian Federation** said that the Ad Hoc Working Group had succeeded in carrying out its mandate. Above all, it had been agreed that the subject of structural adjustment for the transition to disarmament and conversion should continue to be discussed and kept in future programmes of work in UNCTAD, both in the course of preparations for UNCTAD IX and after UNCTAD IX.

59. The representative of **Indonesia** said that UNCTAD's activities should focus on the most important concerns of developing countries. While the issue of structural adjustment for the transition to disarmament did have developmental and trade aspects, it was difficult to separate these aspects from security aspects, and the whole issue should therefore be dealt with in more appropriate bodies in the United Nations system.

60. The **Chairman** said that the issue of structural adjustment for the transition to disarmament was multifaceted and intricate, and the Ad Hoc Working Group should not be discouraged. He was satisfied with the results that the Working Group had achieved.

Chapter II

ORGANIZATIONAL MATTERS

A. Opening of the session

61. The session of the Ad Hoc Working Group to Explore the Issue of Structural Adjustment for the Transition to Disarmament was opened on 27 November 1995 at the Palais des Nations, Geneva, by Mr. R. Lawrence, Deputy to the Secretary-General of UNCTAD.

B. Election of officers

(Agenda item 1)

62. At its 1st (opening) plenary meeting, on Monday, 27 November 1995, the Ad Hoc Working Group elected its officers, as follows:

Chairman:	Mr. Shohei Naito	(Japan)
Vice-Chairmen:	Mr. Lahcen Aboutahir	(Morocco)
	Mr. Jaime Yambao	(Philippines)
	Mr. Alejandro Rogers	(Chile)
	Mr. Ioannis Kinnas	(Greece)
	Mr. Zdenek Venera	(Czech Republic)
Rapporteur:	Mr. Foster Gultom	(Indonesia)

C. Adoption of the agenda and organization of work

(Agenda item 2)

63. Also at its opening plenary meeting, the Ad Hoc Working Group adopted the provisional agenda for the session (TD/B/WG.9/1). The agenda was thus as follows:

1. Election of officers

2. Adoption of the agenda and organization of work

3. Structural adjustment for the transition to disarmament and the implications for world economic growth and development

4. Other business

5. Adoption of the report of the Ad Hoc Working Group to the Trade and Development Board

D. Adoption of the report of the Ad Hoc Working Group to the Trade and Development Board

(Agenda item 5)

64. At its 4th (closing) plenary meeting, on 1 December 1995, the **Ad Hoc Working Group** adopted its draft report (TD/B/WG.9/L.1 and Add.1 and 2), subject to any amendments received from delegations to the summaries of their statements, and authorized the Rapporteur to complete the text of the report in the light of the proceedings of the closing plenary.

Annex I

AGREED CONCLUSIONS

1. The Working Group fulfilled its mandate as contained in Trade and Development Board decision 420 (XLI).

2. The Working Group recommends that, in the process of preparation for UNCTAD IX, the Trade and Development Board examine whether a work programme on structural adjustment for the transition to disarmament (SATD) should be envisaged.

Annex II

CHAIRMAN'S SUMMARY

Substantive issues

1. Delegations agreed that, in accordance with paragraph 98 of the Cartagena Commitment, all countries should consider the possibilities that exist in their specific and individual situation for the reduction of military expenditures and for channelling the savings towards socially productive uses. Discussions in the Working Group were conducted in accordance with the provisions of the mandate given by the Trade and Development Board.

2. Several delegations entered into the issue of the relationship between the reduction of military expenditure in developed countries and the flow of development finance to developing countries. Some delegations, referring to the figures published by UNDP and reproduced in TD/B/WG.9/2 as table 1.1, pointed out that the bulk of the "peace dividend" had accrued to developed countries. Some delegations expressed their disappointment that expectations, according to which the reduction of military expenditure in developed countries would serve to increase international support and financial flows to developing countries, had not been met.

3. Notwithstanding the uncertainties associated with the process of conversion, it would be possible to realize some savings which could be rechannelled to increase the availability of development finance and official development assistance (ODA). Some delegations referred to the positive effect that the reduction in military expenditure by developed countries could have on the reduction of fiscal imbalances in those countries, thus achieving more stable international macroeconomic conditions more conducive to development. One delegation, in referring to the importance of world macroeconomic conditions for structural adjustment for the transition to disarmament (SATD), pointed to the relationship between SATD on the one hand and interest rates, financial flows and investment on the other.

4. Different views were expressed concerning the emphasis to be given to ODA in this context. Many delegations stated that they had approached this issue from the very beginning with the expectation that there would be some direct proportionality between the reduction of military expenditure in developed countries and the increase in ODA. Some delegations referred to paragraph 8 of TD/B/WG.9/2 in pointing out that, instead, ODA by DAC member countries as a percentage of their GNP had steadily fallen. One delegation argued that, since the bulk of military expenditure in developed countries was government expenditure, ODA was the most appropriate channel for transferring to developing countries resources liberated by reducing military expenditure in developed countries. Some delegations stated that their countries had substantially increased ODA while restraining military expenditure. Several delegations argued that the relationship was more subtle and multifaceted and that to posit a mechanical relationship between the fall in military expenditure in developed countries and ODA was simplistic and misleading.

5. Some delegations stressed the argument that disarmament should be considered more as an investment process, involving major expenditures and requiring additional investment and restructuring of technological processes at the beginning. Bearing in mind the risks inherent in any investment, the process could improve the efficiency of resource allocation and productive capacity, and hence improve profits and revenue, in the medium and long term. The "peace dividend" could be regarded as the return on this investment.

6. Some delegations expressed the view that it was in the interests of developing countries to reduce excessive military expenditure and to transfer the resources thus saved to development needs. One delegation pointed out the absence of consensus on either the meaning or the measurement of excessive military expenditure, and that consensus was similarly lacking with respect to "legitimate" military expenditure. In this respect, some delegations were of the opinion that SATD was a multifaceted issue. Thus its economic dimensions could not be dealt with in isolation from other technical, military and security dimensions.

7. Some delegations referred to the use of the armed forces for civilian purposes. One described how the armed forces had been used for major public works, especially just after independence, and how they cooperated with other agencies in combating locusts. Another described how the armed forces served in the protection of the environment, including the marine environment and in response to natural disasters, as well as meteorological and teledetection work. In this context the use of dual-purpose technologies was particularly fruitful. One delegation argued that the armed forces were not the best instrument for the types of activities described.

8. Some delegations raised the issue of rebuilding war-torn societies, including demobilization and the reintegration of ex-combatants. Some delegations referred to their contribution to alleviating the difficulties of SATD, including demobilization, in developing countries, especially Africa, in the aftermath of armed conflict.

9. One delegation raised the issue of the accumulation of small arms in politically unstable regions, particularly in the developing world. Apart from the financial costs related to the purchase of such arms by developing countries, such an accumulation contributed to aggravating armed conflict, which caused high economic costs and immense human suffering.

10. The issue of the conversion of former foreign military bases was raised, including incentives and obstacles to attracting foreign investment. It was stated that the reabsorption of the labour made redundant might become a serious problem in this process.

11. Other issues mentioned were the importance of market access for the output of converted activities, access to technology, and the role of the State in SATD. One delegation explained how his country in its policy dialogue with developing countries approached the question of military expenditure with a view to enhanced transparency.

Institutional issues

12. Discussing institutional issues, delegations agreed that disarmament could be implemented more efficiently if the security context in the world improved. There was consensus that UNCTAD should not enter into security issues or the size and character of military expenditure. Any concern should be with "post-disarmament" processes.

13. This being the case, some delegations stated that UNCTAD should address trade and developmental components related to the post-disarmament process; by doing so UNCTAD would contribute to the goals of the Social Summit.

14. The question of relations between UNCTAD and other organizations was raised. Some speakers referred to the absence of a lead agency within the United Nations system with respect to SATD. Others said that the General Assembly assumed this role. One delegation stated that UNCTAD could contribute to the world hearings on the relationship between disarmament and development proposed by the Secretary-General of the United Nations and become a coordinating agency on trade-related issues.

15. Some delegations named other organizations within the United Nations system, e.g. UNDP, UNIDO or ILO, which were competent to deal with the specific issues which had been raised in the debate in the Working Group. Others pointed out that while particular issues might be outside UNCTAD's own mandate, UNCTAD had a specifically trade, economic and developmental focus which could usefully be brought to bear in debates where it might otherwise be less evident.

16. Some delegations were of the opinion that it would be very difficult to discuss these matters in isolation and that technical military aspects would inevitably be raised; these could not be debated without the participation of military and security experts. They also said that arms trade was not an appropriate subject for debate in UNCTAD.

17. Several delegations in their interventions stressed the importance of the exchange of national experience in the area of SATD. International debate on national experiences could help the countries interested to draw lessons and optimize the SATD process once a decision to start reducing military expenditure had been made. The experience gained in Germany, on the territory of the former German Democratic Republic, was specifically mentioned in this context.

18. Some delegations suggested that UNCTAD, in cooperation with other United Nations agencies as well as with institutions like OAU, OAS and research institutes, could provide a forum for dialogue and exchange of experience. These exchanges could take the form of case studies, or seminars of experts, among other possibilities.

19. Some delegations mentioned technical assistance for developing countries as a form of activity through which UNCTAD could contribute to SATD. Some other delegations stated that UNCTAD had neither the expertise nor the resources to provide technical assistance in this field.

20. With regard to UNCTAD's future work, some delegations questioned the need for any additional intergovernmental body within UNCTAD to deal with SATD, while a group of delegations, supported by some others, made clear their misgivings that work should be undertaken by UNCTAD on SATD. One reason among others was that these questions could not be discussed without the participation of military and security experts. They stated that UNCTAD was not the appropriate forum for this subject and expressed strong opposition to the continuation of any future work or discussions on it by UNCTAD. A number of other delegations were of the opinion that there were economic, development and trade aspects of SATD and that UNCTAD could address these aspects without getting into security issues, which were outside its mandate.

Annex III

ATTENDANCE 1/

1. The following States members of UNCTAD were represented at the session:

Albania
Algeria
Angola
Austria
Bangladesh
Bulgaria
Chile
China
Colombia
Ecuador
Egypt
Ethiopia
France
Germany
Greece
Guatemala
Honduras
India
Indonesia
Iraq
Ireland
Japan
Jordan
Lebanon
Libyan Arab Jamahiriya
Mexico
Morocco
Myanmar
Nepal
Netherlands
Nicaragua
Nigeria
Oman
Pakistan
Philippines
Poland
Portugal
Romania
Russian Federation
Spain
Sri Lanka
Syrian Arab Republic
Thailand
Trinidad and Tobago
Tunisia
Turkey
Ukraine
United Kingdom of Great Britain and Northern Ireland
United Republic of Tanzania
United States of America
Venezuela
Viet Nam

2. The following State member of UNCTAD was represented as an observer at the session:

South Africa

3. The following specialized agencies were represented at the session:

United Nations Educational, Scientific and Cultural Organization
International Monetary Fund
United Nations Industrial Development Organization

1/ For the list of participants, see TD/B/WG.9/INF.1.

4. The following intergovernmental organizations were represented at the session:

Organization of the Islamic Conference
Organization of African Unity

5. The following non-governmental organizations were represented at the session:

General Category

Friends World Committee for Consultation (Quakers)
Society for International Development
Women's International League for Peace and Freedom
World Confederation of Labour
World Federation of United Nations Associations
World Veterans Federation

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Printed at United Nations, Geneva
GE.95-54100–December 1995–2,755

United Nations publication